



County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
<http://ceo.lacounty.gov>

WILLIAM T FUJIOKA
Chief Executive Officer

June 16, 2009

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

WASHINGTON, D.C. UPDATE

Obama Administration Health Care Reform Financing Proposals

This weekend, the President announced new Administration proposals for financing health care reform, which are described in the attached fact sheet (Attachment I). These new proposals would result in an estimated \$313 billion in Medicare and Medicaid savings over the next 10 years. Most of these savings would come from Medicare, including \$110 billion from making "productivity adjustments" to annual Medicare payment increases, \$77 billion by paying lower prices for Medicare Part D prescription drugs, and \$22 billion by reducing payment rates for physician imaging services, skilled nursing facilities, inpatient rehabilitation facilities, and long-term hospitals, and by cutting waste, fraud, and abuse.

Of major concern to the County, the Obama Administration also is proposing to reduce hospital subsidies -- Medicare and Medicaid Disproportionate Share Hospital (DSH) funding -- by a combined total of \$106 billion through Federal Fiscal Year (FFY) 2019. Under this proposal, beginning in FFY 2013, Medicare and Medicaid DSH funding would be gradually phased down so that, by FFY 2019, funding would equal 25 percent of the FFY 2013 Medicare and Medicaid DSH funding levels, updated for inflation. Under current law, Medicaid DSH allotments to states are adjusted annually for inflation, based on the medical Consumer Price Index. The Congressional Budget Office (CBO) estimates that, in FFY 2009, Federal Medicaid DSH payments will total \$9.1 billion and Medicare DSH payments will total \$10.1 billion.

"To Enrich Lives Through Effective And Caring Service"

*Please Conserve Paper -- This Document and Copies are Two-Sided
Intra-County Correspondence Sent Electronically Only*

The proposed 75 percent reduction in Medicaid DSH funding would have a far greater fiscal impact on the County than reduced Medicare DSH funding. In FFY 2009, the County will receive roughly \$412 million in Federal Medicaid DSH revenue, compared to \$18 million in Medicare DSH revenue. On behalf of the County and as the Chairman of the Board, Supervisor Knabe sent letters to House Speaker Nancy Pelosi and the County's Congressional Delegation urging them to support preserving Medicaid DSH funding and voicing the County's concern about the Administration's proposed deep reductions in Medicaid DSH payments. Attachment II is the letter to Speaker Pelosi; the letters to our delegation were similar.

The Administration justifies the reduced DSH payments, based on the rationale that as health care reform phases in and the number of uninsured declines, Federal payments to hospitals for treating those previously uncovered can be reduced. To rebut this argument, the County's letter argues that a large segment of the County's population is likely to remain uninsured, in part, because current health reform proposals would not extend coverage to undocumented immigrants, leaving more than enough uninsured persons to keep our public hospitals operating at their current capacity. Medicaid DSH funds also will continue to be needed to fully reimburse public hospitals for the cost of care provided to Medicaid recipients not covered by low Medicaid payment rates and to help finance surge capacity, trauma care, and burn care as well as access to care for our most vulnerable populations.

Yesterday, the CBO released a preliminary analysis of the draft Senate Health, Education, Labor, and Pensions (HELP) Committee health care reform legislation, which bolsters the County's argument that a large number of persons are likely to remain uninsured, especially in the County. The CBO estimates that the draft HELP Committee's bill would reduce the percentage of non-elderly uninsured by roughly one-third, leaving about 36 million to 37 million uninsured persons of whom roughly one-third would be "unauthorized immigrants or individuals who are eligible for Medicaid but not enrolled in that program." According to Urban Institute estimates, unauthorized (undocumented) immigrants accounted for a far higher percentage of the County's total uninsured than the nation's total uninsured population in 2004.

We will continue to keep you advised.

WTF:GK
MT:er

Attachments

c: All Department Heads
Legislative Strategist

Paying for Health Care Reform
\$313 Billion in Additional Savings to Create a Deficit Neutral Plan

We have the most expensive health care system in the world, but do not get the best results. The rising costs of health care are a burden on our families and a drain on our long-term economic growth. If we continue on the course we are on, health care expenditures will reach 20 percent of GDP within a decade. Rapidly rising health care costs are leading our nation down a fiscally unsustainable path.

For the health of the American people and the health of our economy, we must act now to bring down health care costs and reform the health care system. It is central to the long-term prosperity of the United States. That is why the President is committed to passing health care reform this year. Guided by the principle that we should fix what's broken and build on what already works, the President wants to pass health care reform that allows one to keep their health insurance and choose their health care providers, expands coverage to the millions without, and brings down the cost of coverage.

The President is committed to undertaking reform that is completely paid for and deficit neutral over the next decade. That is why he put forward in his FY 2010 Budget an historic \$635 billion down payment on reform. Roughly half of this amount comes from revenue proposals, including limiting the value of itemized deductions for families making over a quarter-million dollars a year to the rates they were during the Reagan years, and about half comes from savings from Medicare and Medicaid.

Since making this proposal, the Administration has worked with Congress on other ways to offset fully the cost of health care reform through additional savings and revenues. To that end, the Administration is detailing today savings proposals that will contribute another \$313 billion over 10 years to paying for health care reform, bringing the total scoreable offsets put forward by the Administration to nearly \$950 billion over 10 years. Together, this would extend the solvency of Medicare's Hospital Insurance Trust Fund by seven years to about 2024, and reduce beneficiary premiums for physician and outpatient services by about \$43 billion over the next 10 years. The Administration hopes these suggestions will help Congress as it continues to draft legislation, and remains open to any other proposals to pay for reform that Congress may put forward.

Source	Health Care Reserve Fund (\$ in billions)
	10 years
FY 2010 Budget	\$635
– Medicare and Medicaid Savings	\$309
– Revenues	\$326
Additional Medicare and Medicaid Savings	\$313
– Incorporate productivity adjustments into Medicare payment updates	\$110
– Reduce hospital subsidies for treating the uninsured as coverage increases	\$106
– Pay better prices for Medicare Part D drugs	\$75
– Other	\$22
Total	\$948

Reforming the health care system does not end at expanding coverage and making sure that it is paid for; we also must address the underlying problems in our health care system that impede quality improvements and raise costs. The President therefore believes that in addition to scoreable offsets, we must take steps to transform the health care system, such as investing in health care information technology, patient-centered quality research, prevention and wellness, and in creating a system that pays providers for providing better care not just more care. Over time, these steps will help to produce a health care system that works better and costs less.

Paying for Health Care Reform: New Savings

As was emphasized when the President's Budget was initially released, the reserve fund represents a substantial down payment but is not by itself sufficient to fully fund comprehensive reform. The President has insisted that reform must be deficit-neutral based on real savings and revenue estimates as determined by impartial scorers. Thus, in addition to the proposals included in the FY 2010 Budget, the Administration is putting forward policy options to further rein in federal health spending, make the system more efficient, and deliver better quality of care. When combined with the Budget proposals, these new options would extend the solvency of Medicare's Hospital Insurance Trust Fund by seven years to about 2024. These new savings include:

- **Incorporate productivity adjustments into Medicare payment updates.** Productivity in the U.S. economy has been improving over time. However, most Medicare payments have not been systematically adjusted to reflect these system-wide improvements. We should permanently adjust most annual Medicare payment updates by half of the economy-wide productivity factor estimated by the Bureau of Labor Statistics. This adjustment will encourage greater efficiency in health care provision, while more accurately aligning Medicare payments with provider costs.
- **Reduce subsidies to hospitals for treating the uninsured as coverage increases.** Instead of paying hospitals to treat patients without health insurance, we should give people coverage so that they have insurance to begin with. As health reform phases in, the number of uninsured will go down, and we would be able to reduce payments to hospitals for treating those previously uncovered. This would be done by establishing a new mandatory mechanism to better target payments to hospitals for unreimbursed care remaining after coverage increases. Beginning in FY 2013, payments would be gradually phased down so that by 2019, funding would equal 25 percent of Medicare/Medicaid Disproportionate Share Hospitals (DSH) funding in 2013, and updated by inflation.
- **Pay better prices for Medicare Part D drugs.** In its meeting with the President and subsequent communication, the pharmaceutical industry has committed itself to helping to control the rate of growth in health care spending. There are a variety of ways to achieve this goal. For example, drug reimbursement could be reduced for beneficiaries dually eligible for Medicare and Medicaid. The Administration is working with the Congress to develop the most appropriate policy to achieve these savings.

Other Savings

- **Adjust payment rates for physician imaging services to better reflect actual usage.** To provide more accurate payment for physician imaging services, the Department of Health and

Human Services would increase the equipment utilization factor for advanced imaging (such as magnetic resonance imaging (MRI) and computed tomography (CT) machines) from 50 percent to 95 percent. This proposal – which is closely aligned with a Medicare Payment Advisory Commission (MedPAC) recommendation – would better reflect how these technologies are actually used.

- **Adopt MedPAC's recommendations for 2010 payments to skilled nursing facilities, inpatient rehabilitation facilities, and long-term care hospitals.** To bring down costs and maintain quality, we should update payments based on MedPAC's consideration of multiple variables, such as quality, access to care, and adequacy of payment. Doing so would implement MedPAC's 2010 payment recommendations for skilled nursing facilities, inpatient rehabilitation facilities, and long-term care hospitals.
- **Cut waste, fraud, and abuse.** It is important that patients get the best care, not just more care. Unnecessary treatments are not only expensive, but also can harm the health of the patient. To discourage physicians from ordering unnecessary or excessive treatment, we should increase the scrutiny of physicians in high-risk areas or those that order a high volume of high-risk services (such as home health, durable medical equipment, and home infusion therapy) through additional pre-payment review.

Paying for Health Care Reform: 2010 Budget Proposals

The above savings would be in addition to the down payment for comprehensive health care reform of \$635 billion over 10 years detailed in the FY 2010 Budget. The reserve fund is financed roughly half through proposals to generate more revenue, and half through efficiencies and savings from Medicare and Medicaid. Based on our projections, the Medicare proposals contained in the reserve fund would extend the solvency date of the Hospital Insurance (HI) Trust Fund by two years and reduce beneficiary premiums for physician and outpatient services by about \$33 billion over the next 10 years. As a result of these proposals, Medicare beneficiaries will also see an improvement in the quality of their services. The reserve fund includes a broad array of savings proposals including:

- **Reducing Medicare overpayments to private insurers.** The establishment of a competitive system where payments are based upon an average of plans' bids submitted to Medicare would save taxpayers close to \$177 billion over 10 years, as well as reduce Part B premiums.
- **Improving Medicare and Medicaid payment accuracy.** By strengthening program integrity efforts, the Centers for Medicare and Medicaid Services (CMS) will address vulnerabilities that have led to billions of dollars in overpayments and fraud each year.
- **Improving care after hospitalizations and reducing readmission rates.** A combination of incentive payments and penalties should lead to better care and result in fewer readmissions – saving roughly \$25 billion over 10 years.
- **Expanding the Hospital Quality Improvement Program.** By linking a portion of Medicare payments for acute in-patient hospital services to hospitals' performance on specific quality measures, quality of care for beneficiaries will improve, and Medicare will save approximately \$12 billion over 10 years.



BOARD OF SUPERVISORS COUNTY OF LOS ANGELES

822 KENNETH HAHN HALL OF ADMINISTRATION / LOS ANGELES, CALIFORNIA 90012
Telephone (213) 974-4444 / FAX (213) 626-6941

MEMBERS OF THE BOARD

GLORIA MOLINA
MARK RIDLEY-THOMAS
ZEV YAROSLAVSKY
MICHAEL D. ANTONOVICH

DON KNABE

CHAIRMAN OF THE BOARD
SUPERVISOR, FOURTH DISTRICT

June 15, 2009

The Honorable Nancy Pelosi
Speaker of the House of Representatives
H-232 Capitol Building
Washington, D.C. 20515

Dear Speaker Pelosi:

On behalf of the County of Los Angeles, I am writing to urge your support for preserving Medicaid Disproportionate Share Hospital (DSH) funding, which is a critically important funding source for public hospitals. We are concerned that the Obama Administration has proposed deep reductions in Medicaid DSH payments as part of its proposed financing of health care reform.

As longtime advocates for increased and affordable health care access for all Americans, the County Board of Supervisors strongly supports health care reform legislation that would advance those objectives while maintaining the safety net provided by public hospitals, such as those operated by the Los Angeles County Department of Health Services. The Department provides a wide range of services, including trauma and emergency care for all residents, while also serving as the safety net for an estimated 2.1 million uninsured residents. Annually, the County serves nearly 700,000 patients totaling 1.9 million outpatient contacts and more than 300,000 visits to our emergency rooms.

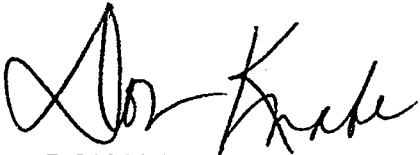
Deep reductions in Medicaid DSH funding should not be enacted without knowing with certainty that health care reform will significantly reduce public hospitals' uncompensated costs. A large segment of the County's population is likely to remain uninsured, in part, because health care reform proposals currently under consideration would not extend coverage to undocumented immigrants. Therefore, the County still could have hundreds of thousands of uninsured residents -- more than enough to keep our public hospitals operating at their current capacity. Moreover, Medicaid DSH funds

The Honorable Nancy Pelosi
June 15, 2009
Page 2

will continue to be needed to fully reimburse public hospitals for the cost of care provided to Medicaid recipients not covered by low Medicaid payment rates and to help finance surge capacity, trauma care, and burn care needed by the entire County population while ensuring access to care for our most vulnerable populations.

Therefore, we urge you to oppose reductions in Medicaid DSH funding. Thank you for your assistance on this important matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Don Knabe", written in a cursive style.

DON KNABE
Chairman of the Board
Supervisor, Fourth District
County of Los Angeles

DK:er